United Kingdom

Ranking 2nd overall, the United Kingdom is an important market for U.S. cloud vendors, who benefit from its developed economy, established base of business customers that understand the cloud value proposition, and the lack of infrastructural hurdles present in other countries. However, UK-based adopters harbor some deep security concerns and this has a clear impact on how cloud services are adopted and deployed.

Overall Rank

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As an advanced economy with a mature IT market, the United Kingdom has been a notable destination for cloud-based services. While there are few estimates of the overall size of the UK-specific cloud sector, credible research indicates that its 2014 value may have been about $9.5 billion (at the year-end 2014 exchange rate).[1] Separate sources posit that small- and medium-sized enterprises (SMEs) contributed $3.2 billion in cloud-related spending last year.[2]

Much market intelligence about enterprise cloud adoption in the United Kingdom comes from industry surveys. Almost four-fifths of UK firms asked during one such survey said they use at least one cloud-based service, citing flexibility and cost savings as two significant motivators.[3]

The cloud trade association behind the poll expected annualized 2013-14 growth of 20 percent and noted that overall cloud adoption had jumped an impressive 61 percent since 2010.[4] Large companies, smaller firms (i.e., those with less than 200 employees), and public sector organizations showed uptake rates of around 80 percent, 75 percent, and 68 percent, respectively.

In terms of 2015 spending plans, 72 percent of UK IT decision-makers queried by data center operator Equinix said they expected a larger cloud budget than in 2014.[5] Much of these funds will likely go to software-as-a-service (SaaS) providers, as survey data suggests that 57 percent to 70 percent of respondents use or are considering implementing SaaS solutions.[6, 7]

Infrastructure-as-a-service (IaaS) has also generated substantial interest among IT decision-makers, particularly in SMEs, which have reportedly helped

drive the value of this cloud segment to at least £851 million.[8] A survey of larger UK establishments reported on in November 2013 indicated that IaaS adoption may be lower among this group, however.[9]

One very discrete but real factor that may accelerate cloud adoption in multiple countries in 2015 (but that seems to have been discussed more in the UK context) is the end of Microsoft's support for its Windows Server 2003 operating system. According to the Cloud Industry Forum (CIF), the cessation of official support for this popular server management tool will prompt at least some organizations to consider transitioning to cloud-based solutions, an alternative to on-site servers, even though Microsoft will continue to support newer versions of Windows Server.[10] This transition will contribute to the 90 percent enterprise cloud adoption CIF expects by the end of 2015.

As is clear from the above statistics, and by at least two major U.S. cloud vendors' recent commitments to local data centers, the United Kingdom is an important destination for cloud providers.[11, 12] Most major U.S. providers offer services in this competitive market and are well-represented in key UK industry groups.[13, 14] However, as is true elsewhere, concerns about data protection and security as well as regulatory compliance make UK clients wary of handing over control of their data. Five out of six business decision-makers asked said that these two issues in particular are at least partially slowing cloud uptake.[15] Additional polls have found the related data sovereignty and privacy worries to be paramount.[16]

Such results have extremely significant implications for cloud uptake. "Data location, security, and privacy risks" were the concerns most prominently cited by

UK-based respondents to a recent KPMG survey, with legal compliance and doubts about integration with existing technology infrastructure emerging as secondary challenges.[17] According to KPMG, the consequence is that seven out of 10 UK firms allocate no more than one-tenth of their technology budgets to cloud solutions. This figure, which stands in contrast to the more upbeat findings from others, offers a sober assessment of the impact of these misgivings on adoption.

In other instances, firms of all sizes have cited budgetary constraints (which have a greater impact on public sector and smaller organizations), investments in legacy IT, and, again, integration between those existing systems and new, cloud-based ones as stumbling blocks.[18]

Additional challenges holding back adoption in their own right include supplier reliability questions, fears (particularly among smaller companies) of vendor lock-in, and reluctance to depend on an Internet connection for access to company data.[19, 20, 21] There is also a general preference for this data to be physically stored in the United Kingdom or at least Europe, especially among public sector and smaller clients.[22] This confluence of factors has led many British business decision-makers – approximately 30 percent according to one survey – to assert that they will never shift their data to the cloud, even as a plurality still indicates plans to do so.[23]

Such fears are especially acute in highly-regulated sectors such as financial services and healthcare, two industries where UK cloud growth has been slower.[24] Sluggish cloud adoption in these sectors has been seen across Western Europe for similar reasons.[25] At least for British accounting firms, however, recent polls suggest that uptake may be slowly but surely expanding.[26]

Given these concerns, it is understandable that the hybrid approach, in which both public and private cloud services are utilized by the same company, is the preferred method of deployment for as much as 89 percent of UK IT decision-makers.[27] Across a wide range of cloud-based solutions, including e-mail, payroll, and sales management, CIF found that strong pluralities prefer on-premise options due to security, data protection, and various other considerations.[28] This preference seems especially strong for accounting-related applications, data storage and backup, and online commerce-related functions, among several others.

Although the hybrid approach is well-entrenched and unlikely to be supplanted anytime soon, nearly half of the respondents to CIF's annual survey indicated that they are open to eventually shifting wholly to reliance on off-site cloud services. Further, hybrid deployments may increase familiarity and comfort with cloud technologies, driving greater adoption in the future.

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